



ATOMIC ENERGY OF CANADA LIMITED

Third Quarter Financial Report

**Interim Condensed Consolidated Financial
Statements (Unaudited)**

**As at and for the three and nine months ended
December 31, 2012 and December 31, 2011**

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1 MESSAGE FROM THE PRESIDENT

As we approach the end of our current fiscal year and another milestone in AECL history, I'm pleased to report that the third quarter of 2012-2013 was another period of excellent progress for AECL.

Guided by a strong Corporate Plan and vision, our work to build a solid foundation for the company's future as a stand-alone federal science and technology organization is bearing fruit. This renewed focus continues to deliver meaningful benefits to our Shareholder, to our colleagues and customers in the public and private sectors, and to AECL's peers in education.

In Q3, important progress was made on our primary 2012-2013 priorities to ensure that AECL employees excel at safety, execution and innovation, together; that we deliver against our commitments to customers; and that we improve AECL through the action areas identified in our Corporate Plan.

With respect to our health, safety, security and environmental (HSSE) posture, we concluded a project of great magnitude and importance to our organization with the completion of our comprehensive safety culture assessment. This initiative included participation from approximately half of AECL employees through detailed surveys, interviews and focus group sessions. With this valuable information in hand, AECL has a better understanding of its safety culture and, more importantly, the confirmation of opportunities for improvement to help focus management action.

Third quarter progress also extended to delivery on our Value Proposition, wherein we have continued to serve Canada in our role as an advisor to and agent of the Government of Canada in matters of public policy, including nuclear environmental stewardship, medical isotope production and nuclear safety and security policy, regulation and operations.

AECL continued its work to reduce the threat of nuclear proliferation through the construction of a prototype cargo inspection system to enhance national border security. This innovative technology has been developed in collaboration with a number of public and private collaborators. It uses naturally occurring radiation to detect illicit nuclear materials at Canada's borders.

AECL also submitted a proposal to the Canadian Safety and Security Program that supports the development of new treatment options for persons exposed to radionuclides. The project will help strengthen Canada's response capabilities for nuclear-related emergencies and is supported by numerous Canadian government agencies, including the Department of National Defence.

As an important enabler of business innovation and technology transfer in Canada, we led a number of important initiatives benefiting private sector organizations. AECL completed and delivered two comprehensive technical reports to the CANDU Owners Group (COG), helping member companies better operate their stations. We also finalized an agreement to manufacture advanced inspection probes for use in harsh environments, transferring the technical competence of an innovative AECL technology to the private sector.

Among other activities, AECL expanded its relationship with the nuclear community by hosting two high-profile industry events. AECL partnered with the Canadian Nuclear Society (CNS) to host the Second International Technical Meeting on Small Modular Reactors, welcoming delegates from around the world to advance collaboration and technology on small reactors. AECL also hosted its third ZED-2 Reactor Physics School, providing participants with access to our unique strengths and capabilities.

Internally, we continued to respond to lessons-learned from the events at the Fukushima Daiichi nuclear power plant in Japan. AECL purchased critical backup power equipment and extended our fire fighting and rescue functionality to enhance the organization's emergency response capabilities. These activities align with AECL's objectives pertaining to nuclear safety and security, and provide our local community with further reassurance that AECL is a trusted, responsible community member.

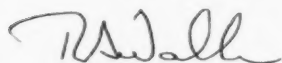
AECL also completed a number of high priority initiatives as part of its Integrated Implementation Plan for improving the reliability of its NRU research reactor, including the removal and safe storage of over one million litres of tritiated water from the NRU reactor rod bays. Over two years in the making, the project improves working conditions for AECL personnel from a health and safety perspective, and helps us further minimize our impacts on the local environment.

And finally, as a key generator of highly qualified people committed to an innovative and safety-focused nuclear sector in Canada, AECL supported two of its reactor engineers in their training to acquire Senior Reactor Shift Engineer (SRSE) certification. This key milestone further improves our ability to safely and reliably operate our NRU reactor to support AECL's Program Activity outputs.

With all of these accomplishments in mind, Q3 was indeed another successful quarter for AECL. We head into 2013 with strong momentum based on the considerable progress we've made over the past two years. We have a strong foundation in our brand and in our strategic outcome, and we have an excellent value proposition for our customers and stakeholders.

Looking forward, we anticipate a decision from the Government of Canada on the restructuring of AECL's Nuclear Laboratories in the near future. To that end, we will continue planning to ensure that we are fully prepared for the transition, that nuclear safety continues to be our overriding priority, that we live within our means and sustain value, and that we have the appropriate management system in place to lead the organization through this period of great change.

As our fiscal year draws to a close and we begin to turn our focus to 2013-2014, I'm very proud of the accomplishments we've made this quarter and I'm optimistic about the future that lies before us. Through the execution of our plan to advance nuclear science and technology to the benefit of Canada, we will continue to set the conditions for our success into the future.



Robert Walker
President & Chief Executive Officer

2 MANAGEMENT'S NARRATIVE DISCUSSION

2.1 Introduction

Management's Narrative Discussion is designed to provide the reader with a greater understanding of AECL's business, its business strategy and performance, its expectations of the future, and how the company manages risk and capital resources. It is also intended to enhance the understanding of the unaudited interim condensed consolidated financial statements for the third quarter and for the first nine months of 2012-2013 and accompanying notes. Management's Narrative Discussion should therefore be read in conjunction with these documents, in addition to the 2011-2012 AECL Annual Financial Report for the year ended March 31, 2012 and the Second Quarter Financial Report for the three and six month periods ended September 30, 2012.

Unless otherwise indicated, all financial information presented in Management's Narrative Discussion, including tabular amounts, is in Canadian dollars and is prepared in accordance with International Financial Reporting Standards (IFRS).

Management's Narrative Discussion was authorized for issue by the Board of Directors on February 14, 2013.

2.2 Our Business

AECL is an agent Crown corporation reporting to Parliament through the Minister of Natural Resources Canada. AECL is headquartered in Chalk River, Ontario and employs more than 3,200 full-time staff.

AECL provides value to Canadians as: an advisor to, and agent of, the Government of Canada for public policy purposes; an enabler of business innovation and technology transfer; and a generator of highly-qualified people.

AECL's vision is to be a global partner in nuclear innovation. The company's overriding objective or "strategic outcome" is to ensure that Canadians and the world receive energy, health, environmental and economic benefits from nuclear science and technology, with confidence that nuclear safety and security are assured.

Management organizes its business activities and evaluates its financial results through its Nuclear Laboratories, which is responsible for achieving the business goals established in AECL's Corporate Plan. Management also maintains a small staff complement in Oakville, Ontario under the Wrap-Up Office to manage retained liabilities related to AECL's Commercial Operations business as at the date of its sale in October 2011.

AECL receives federal funding through appropriations and contracts that enable it to: be an advisor to and agent of the Government of Canada in matters of public policy related to nuclear safety and security; produce medical isotopes; and manage on behalf of the Government of Canada legacy and historic wastes from the past development of nuclear technology in Canada.

AECL also generates revenue from the sale of products and services. This includes medical isotopes; support for CANDU-related technology; nuclear research and development and testing services for the CANDU Owners Group (COG), individual CANDU utilities, Candu Energy Inc. and other third parties; and commercial waste management services for hospitals and universities.

AECL undertakes a series of Program Activities, identified below, that have been established to fulfil the company's strategic outcome. These programs are aligned with and support the Government of Canada's science and technology priorities for a clean and healthy environment; healthy Canadians; a safe and secure Canada; and an innovative and knowledge-based economy.

Nuclear Industry Capability	Ensures that the Canadian nuclear sector remains safe and productive with access to science and technology resources to address emergent technological challenges, and that Canada maintains a strong nuclear power sector.
Nuclear Safety & Security	Ensures that federal activities, regulations and policies, related to nuclear or radiological issues, are supported by the necessary expertise and facilities.
Clean, Safe Energy	Involves the development of energy technologies that make a beneficial impact on Canada's use of clean energy.
Health, Isotopes & Radiation	Ensures that Canadians experience health benefits from nuclear science and technology.
Nuclear Environmental Stewardship	Ensures that Canada's federal nuclear sites are clean and healthy environments.
Nuclear Innovation Networks	Ensures that the Canadian science and technology communities can advance their innovation agendas through access to federal nuclear innovation infrastructure and expertise.
Mission-Ready Science & Technology Infrastructure	Ensures that scientists and engineers from AECL and its partner organizations have access to licensed facilities and services that enable nuclear innovation and production in a safe campus environment that is fully compliant with all legislation for conducting nuclear-related activities.
Internal Services	Provides the business and administrative support functions and infrastructure to enable the efficient and effective delivery of the above programs.

2.3 Highlights of Third Quarter 2012-2013

2.3.1 Health, Safety, Security and Environment

- AECL's lost-time injury (LTI) frequency rate for Q3 was tracking above target against the frequency target set for the fiscal year. The increase in frequency rate is associated with seasonal weather conditions and AECL is taking comprehensive steps to address this trend.
- AECL's LTI severity rate for Q3 was tracking substantially lower against the severity target set for the fiscal year.
- In Q3, AECL made good progress on the comprehensive review of its disability management programs and processes to ensure they are competitive, meet legal obligations and are aligned with business objectives that include productivity and employee wellness. Scheduled for completion in Q4, the review is part of a multi-year project that is being implemented to strengthen the integrity and consistency of AECL practices with respect to continuity of care and overall cost management.
- AECL successfully coordinated and hosted wellness fairs at its Chalk River, Port Hope and Whiteshell sites in Q3. These events were organized to promote the importance of good health and well-being for AECL employees, to educate staff on healthy work practices and lifestyle choices, and to provide employees with an opportunity to connect with local health-related businesses and practitioners.

2.3.2 Program Activities

Nuclear Industry Capability

- As a major supplier of nuclear science and technology expertise, AECL provides support to COG and its knowledge retention initiative through the development and circulation of important scientific reports. In Q3, AECL completed and delivered two particularly relevant and comprehensive reports to COG entitled *Activity Transport Manual for the CANDU Heat Transport System* and the *Radiation Chemistry Manual*. These world-class products provide industry experts with detailed scientific data and analysis, helping COG members better maintain and reliably operate their stations.
- In Q3, AECL signed an agreement with US-based Electric Power Research Institute (EPRI) that enables AECL experts to participate in technical meetings hosted by EPRI on behalf of COG. AECL's participation provides both AECL and COG utilities with the opportunity to gain valuable insight on EPRI research and development programs that are important to the nuclear sector, especially in the areas of materials degradation and non-destructive technologies, complementing expertise resident within AECL. This new relationship results in enhanced and direct collaboration with EPRI and its membership.

- AECL finalized an agreement with key industry partners to manufacture Axial Diameter and Magnetite (ADAM) probes, an inspection tool that makes use of AECL eddy current technology to measure material build-up inside steam generator tubing in nuclear power reactors. As part of the agreement, AECL will subcontract the work and transfer the technical competence to a company that will manufacture the probes, which will be sold and utilized for steam generator inspections. Through this technology transfer, Canadian industry will retain the capability to manufacture ADAM probes directly for commercial customers in the future, which aligns with a key component of AECL's value proposition. AECL is in the process of receiving and inspecting the initial commercial probes from its new partner, after which the company will manufacture the probes directly for industry use without AECL oversight.

Nuclear Safety and Security

- In the third quarter, AECL successfully completed its comprehensive safety culture assessment. The initiative involved a detailed survey completed by 45 per cent of AECL employees and follow-up interviews and focus group sessions with staff at AECL's Chalk River, Whiteshell and Port Hope sites. Final reports for each site, as well as a comprehensive summary report, were prepared and presented to the AECL management team and made available to staff through the company's intranet. This assessment supports high-priority commitments in AECL's Integrated Implementation Plan and Voyageur II program, and provides important insights into AECL safety culture activities and management support.
- The World Institute of Nuclear Security (WINS) visited the Chalk River Laboratories over a five-day period in Q3 to conduct a security culture assessment. Following the visit, WINS prepared and delivered a report to AECL that will assist security staff in the execution of meaningful changes to the way AECL security measures are communicated and implemented.
- Construction of a prototype muon tomography cargo inspection system was completed in collaboration with Defence Research and Development Canada, Health Canada, Canada Border Services Agency, Carleton University, Advanced Applied Physics Solutions and International Safety Research Inc. Developed under the auspices of the Canadian Safety and Security Program (CSSP), the innovative new Canadian technology uses naturally occurring cosmic rays called muons to detect and map contraband nuclear materials hidden inside large air and surface shipping containers. The inspection system was designed and developed to reduce the threat of nuclear proliferation through enhanced border security.

Clean, Safe Energy

- AECL made significant progress in the evolution and improvement of its Super-Critical Water Reactor (SCWR) design, which is based on the CANDU fuel channel concept. AECL is leading SCWR development as part of Canada's contribution to the Generation IV International Forum, a cooperative international endeavour to establish the feasibility and performance capabilities of next-generation nuclear energy systems. The AECL SCWR will be more thermally efficient than conventional nuclear power reactors and feature a simplified core configuration, an enhanced safety system and improved fuel utilization. Through this work,

AECL builds upon its existing knowledge-base to advance nuclear energy technology and safety systems for Canada's next-generation reactors.

- AECL and the Canadian Nuclear Society (CNS) hosted the Second International Technical Meeting on Small Modular Reactors in Ottawa in Q3. The event welcomed more than 125 delegates from 11 countries, featured over 50 presentations from participants and attracted a broad range of stakeholders, including nuclear regulators and representatives in government, industry and academia. This technical meeting helps advance international collaboration and technology on small reactors and ensures Canada benefits from emerging technology developments in this important field.

Health, Isotopes and Radiation

- AECL continued to support the global health community in Q3 through the reliable supply of molybdenum medical isotopes. During the quarter, 98% of daily molybdenum isotope orders were met by AECL and 100% of Canadian demand was met. In addition, AECL expanded production to meet increased orders in response to the unplanned extended outage at the HFR Petten reactor in the Netherlands.
- AECL prepared and submitted a proposal to the CSSP that supports the development of new treatment options for persons exposed to radionuclides. The project would strengthen Canada's response capabilities for nuclear-related emergencies and is supported by the U.S. Food and Drug Administration and a number of Canadian government agencies, including the Department of National Defence. Under the proposal, AECL would conduct the work in collaboration with the Lawrence Berkeley National Laboratory and the Lovelace Inhalation Toxicology Institute.
- As part of a comprehensive response to the events at the Fukushima Daiichi nuclear power plant in Japan, AECL purchased three new mobile diesel generators and a new fire truck with high-angle fire fighting and rescue functionality to extend the organization's emergency response capabilities. Also in Q3, the Canadian Nuclear Safety Commission (CNSC) closed AECL's General Nuclear Safety and Control Regulation subsection 12(2) response action for NRU and the Chalk River Laboratories site, a regulatory request that required AECL to review lessons-learned from Fukushima, re-examine its safety case and report on implementation measures to address any significant gaps.
- AECL completed a number of high-priority improvement initiatives as part of its Integrated Implementation Plan, including the biannual AECL Safety Culture Survey, the NRU Light Water Reflector inspection and the NRU Rod Bay Water Swap project, which removed over one million litres of tritiated water from the NRU rod bays. These activities provide AECL with important facility and process improvements needed for the organization to meet its program objectives.

Nuclear Environmental Stewardship

- AECL made significant progress on its agreement with Enterprise Cape Breton Corporation (ECBC) to complete the decommissioning and remediation of storage buildings and lands associated with AECL's former heavy-water plant site in Glace Bay, Nova Scotia. This included the completion of the Phase II environmental site assessment, the transfer of five parcels of land totalling 162 hectares to ECBC, and the start of activities associated with the removal of hazardous waste from the site and the demolition of buildings on the remaining land by ECBC and its contractors.
- AECL and Public Works and Government Services Canada advanced activities associated with the enabling infrastructure necessary to remediate 1.7 million m³ of historic low-level radioactive wastes in the Port Hope area. In the Port Granby Project, construction of the Elliot Road Upgrade was completed and the contract was awarded for the construction of the waste water treatment plant for the Port Granby Long Term Waste Management Facility. Also in Q3, the CNSC extended the term of the Port Hope Project's licence to 2022, allowing waste remediation and facility construction activities to proceed.
- As part of an industry-wide initiative led by COG, 11 good practices and nine opportunities for improvement were identified in a report on the benchmarking review of AECL's Environmental Management System. The review offers participating organizations an opportunity to improve performance through shared information and experiences, and provides AECL with important insights into the strength of its program.

Nuclear Innovation Networks

- AECL hosted its third ZED-2 Reactor Physics School in Q3, welcoming 16 graduate students and scientists from universities and organizations across Canada and the United States to the Chalk River Laboratories. The program was developed to build a ZED-2 user community with partners in industry and academia, enabling them to utilize AECL's unique strengths and capabilities to advance their scientific agendas. The week-long program featured lectures from experts on key issues to reactor physics and was very well received by participants, with interest already expressed for AECL's next school session in the summer of 2013.

Mission-Ready Science & Technology Infrastructure

- In the third quarter, two AECL reactor engineers completed an extensive training program and a comprehensive CNSC examination in order to acquire Senior Reactor Shift Engineer (SRSE) certification. This professional development activity further improves the organization's ability to safely and reliably operate the reactor to support AECL's Program Activity outputs and aligns with AECL's Value Proposition with respect to the generation of highly qualified people.
- AECL conducted field testing of its new leak location and detection system, a novel technique AECL developed to locate leaks in piping systems at the Chalk River Laboratories. With a

patent pending for the technology, the testing provided AECL with insight into important refinements and improvements needed to enhance the new system. The investment and development of this innovative tool helps AECL fulfill its Program Activity objective concerning the safe, reliable and efficient availability of its infrastructure.

- In Q3, AECL personnel used remote tooling to safely repair a liquid waste line required for the processing of high specific-activity Cobalt-60. The efficient completion of this highly-detailed work was carried out under extremely challenging conditions and ensured that AECL had minimal disruptions to its business performance and customer commitments. Maintaining the readiness of this key facility assures the production of an important isotope for cancer therapy, supporting the health and well-being of Canadian citizens.

Internal Services

- AECL signed a Memorandum of Understanding with the Canada Border Services Agency (CBSA) under the CBSA Partners in Protection program, concluding a two-phase, multi-year AECL initiative with US and Canada customs. This program is voluntary and enlists the cooperation of industry to enhance border and trade security, combat organized crime and terrorism, and help detect and prevent contraband smuggling. Participants are expected to implement and adhere to high security standards, while the CBSA agrees to assess their security measures, provide information sessions on security issues and offer other trade benefits. Member companies are recognized as trusted traders, which allows the CBSA to focus its resources on areas of higher risk to Canada, and strengthens the reliability of AECL's international supply chain.
- During the third quarter, AECL initiated a review of the strategic planning behind its IT security and governance in order to enhance the role of IT as a strategic enabler of AECL's output Program Activities. Overall, the initiative is expected to improve the maturity of AECL's information technology processes and improve organizational risk management.

2.3.3 Commercial Operations (Discontinued Operations)

- Following the Québec government's decision to permanently shut down the Gentilly-2 nuclear reactor in Québec at the end of 2012, utility owner Hydro-Québec terminated its contract with AECL to extend the life of the Gentilly-2 reactor. AECL has since sought declaratory relief in the Superior Court of Québec to clarify the contractual rights and obligations of each party on termination.

2.3.4 Financial

- AECL's comprehensive net income was \$93 million in Q3 2012-2013 compared to a \$287 million comprehensive net loss in the same period of the previous year. The \$380 million variance relates to the quarterly revaluation of the decommissioning and waste management liability.

As per IFRS, the reported decommissioning and waste management liability is re-valued quarterly on a discounted or net present value basis using the discount rate in effect at the end of the quarter. The discount rate is equal to the long-term Government of Canada benchmark bond yield. When the discount rate decreases, the liability increases. Conversely, when the discount rate increases, the liability decreases. In both cases, the change in liability impacts the company's reported net income or net loss, but is a non-cash income or expense and does not impact AECL's funding requirements for the reporting year.

The discount rate at December 31, 2012 was 0.04% higher than the previous quarter-end rate while the discount rate at December 31, 2011 was 0.28% lower than the September 30, 2011 rate. As a result, AECL's reported liability decreased by \$55 million in this quarter compared to an increase in the liability of \$403 million in Q3 2011-2012. The estimated undiscounted future decommissioning and waste management costs did not change significantly in either period.

- The Government of Canada provided significant financial support to allow the Nuclear Laboratories and the Wrap-Up Office to move forward with their respective planned activities in accordance with the AECL Corporate Plan. Several of the more significant funded initiatives during the quarter were:
 - \$6 million to support Enhanced CANDU 6® reactor development as per the Asset Purchase Agreement with Candu Energy Inc.
 - \$115 million to support ongoing Chalk River site operations and regulatory, health, safety and environmental needs; science and technology activities; Project New Lease (infrastructure renewal) and the Isotope Supply Reliability Program (ISRP - NRU operations and licence requirements) initiatives; and Wrap-Up Office progress on the remaining reactor life extension projects.
 - \$31 million for decommissioning and waste management activities.
- Consolidated revenues decreased to \$34 million in Q3 2012-2013 from \$70 million during the same period in the previous year. The decrease in consolidated commercial revenue is the result of a reduction in life extension projects revenue with the completion of certain life extension projects in 2011-2012 and early 2012-2013.

2.3.5 Outlook

- 2012-2013 major priorities and deliverables are described in AECL's 2011-2012 annual financial report in the "Management's Discussion and Analysis" section. These priorities and deliverables have not materially changed in the first nine months of 2012-2013.
- AECL remains on track to meet its commitments as outlined in its Corporate Plan and within its 2012-2013 budget.

2.4 Forward-Looking Statements

This Management's Narrative Discussion has been reviewed by AECL's Audit Committee and approved by AECL's Board of Directors. It provides comments on the performance of AECL for the quarter ended December 31, 2012 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes.

The Management's Narrative Discussion contains forward-looking statements with respect to AECL based on assumptions that management considers reasonable at the time of preparation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause future results to differ materially from current expectations. We caution the reader that the assumptions regarding future events, many of which are difficult to predict, may ultimately require revision.

2.5 Consolidated Financial Review

KEY FINANCIAL INFORMATION

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<i>(\$ millions)</i>				
Revenue				
Nuclear Laboratories	\$ 25	\$ 22	\$ 66	\$ 51
Commercial Operations (Discontinued Operations)	9	48	74	218
Total revenue	\$ 34	\$ 70	\$ 140	\$ 269
Gross margin before funding				
Nuclear Laboratories	\$ 12	\$ 10	\$ 30	\$ 22
Commercial Operations (Discontinued Operations)	6	16	63	2
Total gross margin before funding	\$ 18	\$ 26	\$ 93	\$ 24
Funding				
Parliamentary appropriations - operating	\$ 107	\$ 178	\$ 418	\$ 529
Parliamentary appropriations - capital	14	8	34	27
Other funding - operating	31	28	86	85
Cost recovery from third parties and other	8	4	18	11
Amortization of Deferred capital funding	3	2	9	7
Total funding	\$ 163	\$ 220	\$ 565	\$ 659
Net (loss) income by business entity before Parliamentary appropriations				
Nuclear Laboratories	\$ (7)	\$ (468)	\$ (667)	\$ (1,722)
Commercial Operations (Discontinued Operations)	(7)	3	25	(139)
Net loss before Parliamentary appropriations	\$ (14)	\$ (465)	\$ (642)	\$ (1,861)

2.5.1 Revenue

Consolidated revenue in Q3 decreased to \$34 million from \$70 million in Q3 2011-2012. This decrease was mainly the result of the substantial completion of life extension projects late in the 2011-2012 fiscal year and early in the 2012-2013 fiscal year. On a year-to-date basis, consolidated revenues decreased from \$269 million in 2011-2012 to \$140 million this year. This variance is largely due to the sale of AECL's Commercial Operations in early Q3 2011-2012 and the Q3 2012-2013 variances noted above. These reductions in revenue were partially offset by greater revenue

generated by Nuclear Laboratories from heavy water sales and delivery of services to Candu Energy Inc.

2.5.2 Gross Margin

Consolidated gross margin decreased in Q3 to \$18 million from \$26 million in the third quarter of the previous year. This change in gross margin reflects the decrease in revenue described above.

Year-to-date gross margins increased to \$93 million from \$24 million for the same period of the previous year. This variance largely reflects the \$93 million adjustment in Q1 2011-2012 to revenue and costs relating to the subcontract agreement with Candu Energy Inc. to complete AECL's life extension projects noted above. Additionally, the variance is impacted by the Q2 2012-2013 adjustment to reduce the estimated costs to close out certain life extension projects. This reduction has resulted in a reversal of costs previously charged to income and carried on the balance sheet as an accrued contract loss provision. These variances are partially offset by the reduction in gross margin earned from Commercial Operations' Services activity due to the sale of this business to Candu Energy Inc. in 2011-2012.

2.5.3 Net Income / Loss before Parliamentary Appropriations by Operational Organization

Nuclear Laboratories reported a net loss of \$7 million this quarter compared to a net loss of \$468 million in Q3 2011-2012. On a year-to-date basis, Nuclear Laboratories reported a net loss of \$667 million, compared to a \$1,722 million net loss in the first nine months of 2011-2012.

These variances, both prior to Parliamentary appropriations, are related to a non-cash adjustment to the Decommissioning and waste management provision, presented on a net present value basis. This adjustment in the current quarter is the result of an increase in the discount rate used to calculate the reported liability, from the preceding quarter. The year-to-date adjustment is the result of a decrease in the discount rate used to calculate the reported liability, from the preceding fiscal year.

The December 31, 2012 discount rate was 2.36%, an increase of 0.04% from the previous quarter end and a decrease of 0.30% from the previous year-end. Comparatively, the December 31, 2011 discount rate was 2.49%, representing decreases of 0.28% and 1.26% from the September 30, 2011 and March 31, 2011 rates in effect, respectively. In all cases, the undiscounted future decommissioning and waste management costs have not changed significantly and there is no immediate funding or cash impact.

Commercial Operations (Discontinued Operations) reported a net loss of \$7 million this quarter compared to a net income of \$3 million in Q3 2011-2012. This variance in net income is mainly due to the decrease in gross margin, as described above. This decline in margin was partially offset by a decrease in operating expenses.

Commercial Operations (Discontinued Operations) reported a \$25 million net income year-to-date compared to a \$139 million net loss in the same period of the previous year, both before Parliamentary appropriations. This difference is largely the result of the gross margin variances described in section 2.5.2, above. The current year's results include a reduction in operating expenses resulting from the sale of the Commercial Operations business in Q3 2011-2012 while the prior year's results include \$40 million in restructuring and impairment charges.

2.5.4 Year-to-Date 2012-2013 Results Compared to Plan

The 2012-2013 year-to-date results are generally comparable to the planned results presented and approved in AECL's 2012-2013 Corporate Plan. As such, AECL is on track to meet the financial performance measures for the current fiscal year as outlined in its 2012-2013 Corporate Plan.

2.6 Financial Review by Organization

2.6.1 Nuclear Laboratories

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<i>(\$ millions)</i>				
Revenue and Funding				
Revenue	\$ 25	\$ 22	\$ 66	\$ 51
Cost recoveries from third parties and other	8	4	18	11
Amortization of Deferred capital funding	3	2	9	7
Total revenue and funding	\$ 36	\$ 28	\$ 93	\$ 69
Gross margin before Parliamentary appropriations				
	\$ 12	\$ 10	\$ 30	\$ 22
Operating expenses				
	\$ 90	\$ 87	\$ 270	\$ 263
Net loss before decommissioning and Parliamentary appropriations				
	\$ (64)	\$ (68)	\$ (207)	\$ (217)
Decommissioning				
Funding	\$ 31	\$ 28	\$ 86	\$ 85
Revaluation gain (loss) on decommissioning and waste management liability and other	62	(392)	(438)	(1,477)
Financial expenses	(36)	(36)	(108)	(113)
Decommissioning net income (loss)	\$ 57	\$ (400)	\$ (460)	\$ (1,505)
Net loss before Parliamentary appropriations				
	\$ (7)	\$ (468)	\$ (667)	\$ (1,722)

2.6.1.1 Revenue

In Q3 2012-2013, the Nuclear Laboratories generated \$25 million in revenue related to its support for the nuclear industry capability, compared to \$22 million in Q3 2011-2012. On a year-to-date basis, revenues increased to \$66 million in 2012-2013 from \$51 million in the first nine months of 2011-2012. Revenue included isotope sales, commercial technology sales, nuclear waste management, and research and development activities performed for the CANDU Owners Group. These improvements can be attributed primarily to work performed under contract for Candu Energy Inc. and increased heavy water sales.

2.6.1.2 Gross Margin

Gross margins increased from \$10 million in Q3 2011-2012 to \$12 million in Q3 2012-2013. On a year-to-date basis, gross margins increased from \$22 million in 2011-2012 to \$30 million in 2012-2013. These increases stem primarily from the increased revenues described above.

2.6.1.3 Cost Recoveries from Third Parties and Other

Nuclear Laboratories manages historic wastes through the Low-Level Radioactive Waste Management Office and Port Hope Area Initiative Management Office on a cost recovery basis for Natural Resources Canada. These activities represent the majority of AECL's cost recoveries. Funding of \$8 million in this quarter and \$17 million for the year-to-date period was provided through Natural Resources Canada to support the Low-Level Radioactive Waste Management Office and the Port Hope Area Initiative Management Office. This level of funding represents an increase of \$4 million and \$6 million, respectively, from the same periods in the previous fiscal year as the Port Hope Area Initiative project has progressed to the construction phase.

2.6.1.4 Operating Expenses

Total operating expenses for the Nuclear Laboratories were \$90 million this quarter compared to \$87 million in Q3 2011-2012. On a year-to-date basis, operating expenses increased to \$270 million from \$263 million in 2011-2012. The current year results are generally comparable to those of the prior periods.

2.6.1.5 Net Loss before Decommissioning and Parliamentary Appropriations

Nuclear Laboratories reported a net loss before decommissioning of \$64 million in this quarter compared to a \$68 million net loss in Q3 2011-2012, both prior to Parliamentary appropriations. On a year-to-date basis, a net loss before decommissioning and Parliamentary appropriations of \$207 million was incurred, compared to \$217 million in 2011-2012. These decreases in net loss before decommissioning and Parliamentary appropriations result from increases in gross margin and funding, which were partially offset by increased operating expenses, all of which are as described above.

2.6.1.6 Decommissioning Funding

Decommissioning funding recognized during this quarter was \$31 million, compared to \$28 million in Q3 2011-2012. On a year-to-date basis, \$86 million in funding was recognized, compared to \$85 million in 2011-2012. The decommissioning funding enables AECL to provide sound environmental stewardship in addressing its decommissioning and waste management liabilities.

2.6.1.7 Decommissioning Expenses

Nuclear Laboratories reported a Revaluation gain on decommissioning and waste management liability and other of \$62 million in this quarter compared to a loss of \$392 million in Q3 2011-2012. On a year-to-date basis, the Revaluation loss on decommissioning and waste management liability and other was \$438 million, compared to a loss of \$1,477 million in 2011-2012. See Section 2.5.3 for further details on these variances.

Financial expenses in Q3 2012-2013 of \$36 million, which primarily include the increase in the net present value of the Decommissioning and waste management provision (due to the passage of time), were comparable to those in Q3 2011-2012, which were also at \$36 million. On a year-to-date basis, financial expenses were \$108 million, compared to \$113 million in 2011-2012.

Overall, decommissioning activities resulted in a Q3 2012-2013 net income of \$57 million compared to a net loss of \$400 million in Q3 2011-2012. The year-to-date loss in 2012-2013 totalled \$460 million, compared to \$1,505 million in 2011-2012. These variances were mainly the result of the adjustment to the discount rate used to calculate the Decommissioning and waste management provision presented on a net present value basis.

2.6.2 Commercial Operations (Discontinued Operations)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<i>(\$ millions)</i>				
Revenue				
Reactor life extension	\$ 9	\$ 45	\$ 74	\$ 164
Services	-	3	-	54
Total revenue	\$ 9	\$ 48	\$ 74	\$ 218
Gross Margin				
Reactor life extension	\$ 6	\$ 16	\$ 63	\$ (21)
Services	-	-	-	23
Total gross margin	\$ 6	\$ 16	\$ 63	\$ 2
Operating Expenses	\$ 12	\$ 13	\$ 39	\$ 101
Net (loss) income before Parliamentary appropriations and restructuring charges	\$ (7)	\$ 3	\$ 25	\$ (99)
Restructuring and impairment charges	-	-	-	40
Net (loss) income before Parliamentary appropriations	\$ (7)	\$ 3	\$ 25	\$ (139)

2.6.2.1 Revenue

AECL continued to earn revenue from certain life extension projects retained by AECL and the Government of Canada as at the date of the sale of the Commercial Operations business to Candu Energy Inc.

Total revenue decreased to \$9 million in this quarter from \$48 million in the same period in 2011-2012. The decrease in revenue, mainly from life extension projects, was largely due to the substantial completion of all major work activities associated with the Bruce Retube Project late in 2011-2012 and the Point Lepreau Nuclear Generating Station in New Brunswick earlier in this fiscal year. Additionally, the current quarter's revenue was impacted by Hydro-Québec's termination of its contract with AECL to extend the life of the Gentilly-2 reactor on October 2, 2012.

On a year-to-date basis, total revenue decreased to \$74 million from \$218 million in the first nine months of 2011-2012. This decrease reflects the Q3 2012-2013 variances, described above, and the decrease in Services revenue due to the sale of this business to Candu Energy Inc. in October 2011. These variances are partially offset by the Q1 2011-2012 adjustment to reflect the terms of the subcontract agreement with Candu Energy Inc. and revenue recorded in Q2 2012-2013 to reflect a reduction in the estimated costs to close out each of its existing life extension contracts.

2.6.2.2 Gross Margin

Gross margin decreased to \$6 million this quarter from \$16 million in Q3 2011-2012. This variance reflects reduced gross margin in this quarter for the retained life extension projects resulting from the reduction in revenues on these projects, as described in Section 2.6.2.1.

On a year-to-date basis, gross margins increased to \$63 million from \$2 million in the same period last year. This increase is due to the Q2 2012-2013 adjustment to reverse costs, as a result of a reduction in the estimated costs to close out certain life extension projects that were previously charged to income and carried on the balance sheet as an accrued contract loss provision. Additionally, the variance results from the Q1 2011-2012 adjustment to reflect the terms of the subcontract agreement with Candu Energy Inc. to complete AECL's life extension projects. These variances were partially offset by the reduced gross margin from the Services business, with the sale of AECL's Commercial Operations, and the Q3 2012-2013 variances described above.

2.6.2.3 Operating Expenses

Operating expenses decreased by \$1 million to \$12 million in this quarter (Q3 2011-2012: \$13 million). On a year-to-date basis, operating expenses were \$39 million compared to \$101 million in the same period last year. The year-to-date decrease is directly attributable to the sale of the Commercial Operations in October 2011.

2.6.2.4 Net Income / Loss before Parliamentary Appropriations and Restructuring Charges

Commercial Operations (Discontinued Operations) generated a net loss of \$7 million this quarter compared to a net income of \$3 million in Q3 2011-2012, both before Parliamentary appropriations and restructuring charges. On a year-to-date basis, Commercial Operations (Discontinued Operations) generated a net income before Parliamentary appropriations and restructuring charges of \$25 million compared to a net loss of \$99 million in the corresponding period of the previous year. These variances are primarily due to the changes in gross margin and operating costs, both as described above.

2.7 Consolidated Cash Flow and Working Capital (Before Discontinued Operations)

SOURCES AND USES OF CASH

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<i>(\$ millions)</i>				
Cash from operating activities	\$ 23	\$ 85	\$ 63	\$ 141
Cash used in investing activities	(13)	(5)	(36)	(28)
Cash and cash equivalents				
Increase	10	80	27	113
Balance at beginning of the period	52	52	35	19
Balance at end of the period	\$ 62	\$ 132	\$ 62	\$ 132

Overall, AECL's Q3 2012-2013 closing cash position decreased to \$62 million from the Q3 2011-2012 level of \$132 million. The previous year's cash balance included funding for the expenditures to be made by the Wrap-Up Office, the timing of which was later than that assumed in the related funding submission.

2.7.1 Operating Activities

Operating activities generated a net cash inflow of \$23 million in Q3 2012-2013 compared to \$85 million in Q3 2011-2012. On a year-to-date basis, operating activities resulted in a net cash inflow of \$63 million compared to \$141 million in the same period the previous year. The third quarter result and the year-to-date variance are both the result of decreased cash paid to suppliers, partially offset by decreased cash received from customers and Parliamentary appropriations.

2.7.2 Investing Activities

Investing activities used cash of \$13 million in Q3 2012-2013 which represents an increase of \$8 million when compared to the same period in the prior year. On a year-to-date basis, investing activities used cash of \$36 million compared to \$28 million in the first nine months of 2011-2012. These increases result from increased spending to renovate and upgrade several buildings at the Chalk River Laboratories under Project New Lease.

2.8 Highlights of the Consolidated Balance Sheet

(\$ millions)	December 31, 2012	March 31, 2012	Variance In \$	Variance By %
Assets	\$ 1,151	\$ 1,147	\$ 4	0%
Liabilities	6,930	6,681	249	4%
Shareholder's deficit	5,779	5,534	245	4%

AECL closed Q3 2012-2013 with assets of \$1,151 million, which represents a \$4 million increase in assets from March 31, 2012. This variance is mainly the result of an increase in Cash and Property, plant and equipment, which was partially offset by decreases in Trade and other receivables and Long-term receivables.

The increase in Liabilities of \$249 million can be attributed primarily to the change in the Decommissioning and waste management provision of \$466 million, which mainly resulted from the decrease in the discount rate used to estimate the reported liability. This increase in liabilities is partially offset by reductions in Customer advances and obligations, Provisions and Trade and other payables.

The change in Shareholder's deficit is the result of the net loss, which is mostly due to the non-cash expense associated with the change in discount rate used to estimate the decommissioning and waste management liability, incurred year-to-date.

2.9 Funding

2.9.1 Parliamentary Appropriations

(\$ millions)	Three Months Ended		Nine Months Ended	
	December 31, 2012	2011	December 31, 2012	2011
Parliamentary appropriations - operating	\$ 107	\$ 178	\$ 418	\$ 529
Parliamentary appropriations - capital				
Capital infrastructure refurbishment project funding	\$ 14	\$ 8	\$ 34	\$ 27
Total Parliamentary appropriations - capital	\$ 14	\$ 8	\$ 34	\$ 27
Total Parliamentary appropriations	\$ 121	\$ 186	\$ 452	\$ 556

AECL receives Parliamentary appropriations to support planned activities. In the current quarter, the Corporation received \$107 million and recognized in income a sum of \$121 million. The \$14 million difference is the portion of the Parliamentary appropriations received in Q2 and recorded as

Deferred funding, relating to future expenditures. In the comparable period in the previous year, \$216 million was received of which \$186 was recognized in that quarter with the balance of \$30 million, relating to future expenditures, being deferred. On a year-to-date basis, \$452 million in Parliamentary appropriations was received and recognized, compared to \$586 million received and \$556 recognized in the same period in the previous year.

Funding is applied to the Nuclear Laboratories program activities that comprise AECL's Program Activity Architecture and that are aligned with federal science and technology priorities. Funding is also utilized to address the retained liabilities associated with the life extension projects.

There were no Parliamentary appropriations receivable as at December 31, 2012.

2.9.2 Other Funding

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	2012	2011	2012	2011
<i>(\$ millions)</i>				
Other funding				
Cost recoveries from third parties and other	\$ 8	\$ 4	\$ 18	\$ 11
Amortization of Deferred capital funding	3	2	9	7
Decommissioning and waste management	31	28	86	85
Total Other Funding	\$ 42	\$ 34	\$ 113	\$ 103

Amounts received from other government entities for execution of work performed on service contract agreements and invoiced in a manner similar to other commercial customers are classified as Other Funding. Amortization of Deferred capital funding is recorded simultaneously with the depreciation of the related asset in AECL's Interim Condensed Consolidated Statement of Comprehensive Income (Loss).

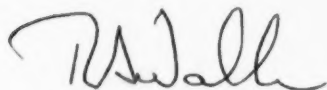
2.10 Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2011-2012 annual financial report under the section "Management's Discussion and Analysis." Risks and uncertainties and risk management practices associated with the Nuclear Laboratories and retained Commercial Operations liabilities as noted in the 2011-2012 annual financial report have not materially changed in the first nine months of 2012-2013.

3 MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations," and for such internal controls as Management determines is necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the condensed consolidated quarterly financial statements.



Robert Walker
President & Chief Executive Officer
February 27, 2013
Chalk River, Canada



Steven Halpenny
Chief Financial Officer
February 27, 2013
Chalk River, Canada

4 UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Condensed Consolidated Balance Sheet (Unaudited)

		December 31, 2012	March 31, 2012
(thousands of Canadian dollars)	Notes		
Assets			
Current			
Cash and cash equivalents		\$ 62,417	\$ 35,439
Trade and other receivables	10	310,917	338,121
Current portion of long-term receivables		22,231	21,319
Inventory		28,265	29,179
		423,830	424,058
Long-term receivables		111,079	127,964
Investments held in trust		40,586	39,305
Heavy water inventory		290,380	290,599
Property, plant and equipment	4	283,816	263,277
Intangible assets		1,469	1,693
		\$ 1,151,160	\$ 1,146,896
Liabilities			
Current			
Trade and other payables	7,10	\$ 103,759	\$ 152,273
Customer advances and obligations	10	184,675	316,601
Provisions	5,10	62,687	121,500
Current portion of decommissioning and waste management provision	6	161,400	135,500
Current portion of long-term payables		-	6,660
Current portion of employee benefits	7	15,757	6,153
Restructuring provision	10	4,050	6,026
		532,328	744,713
Decommissioning and waste management provision	6	5,983,443	5,543,030
Deferred capital funding	8	216,861	192,314
Deferred decommissioning and waste management funding		165,188	147,007
Employee benefits	7	31,887	53,860
		6,929,707	6,680,924
Shareholder's deficit			
Share capital		15,000	15,000
Contributed capital		271,403	291,867
Deficit		(6,064,950)	(5,840,895)
		(5,778,547)	(5,534,028)
		\$ 1,151,160	\$ 1,146,896

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Condensed Consolidated Statement of Comprehensive Income (Loss)
(Unaudited)

		Three Months Ended December 31		Nine Months Ended December 31	
(thousands of Canadian dollars)	Notes	2012	2011	2012	2011
Nuclear Laboratories					
Revenue		\$ 25,262	\$ 22,180	\$ 65,604	\$ 51,028
Cost of sales		13,642	12,110	35,713	29,590
Gross margin before funding		11,620	10,070	29,891	21,438
Funding	8	11,180	6,011	27,017	17,766
Gross margin		22,800	16,081	56,908	39,204
Operating expenses		89,662	86,841	269,707	263,327
Operating loss		(66,862)	(70,760)	(212,799)	(224,123)
Financial income	9	2,083	2,329	6,412	7,256
Financial expenses	9	-	122	79	463
Net loss before decommissioning and waste management and Parliamentary		\$ (64,779)	\$ (68,553)	\$ (206,466)	\$ (217,330)
Decommissioning and waste management					
Funding	8	\$ 30,761	\$ 28,405	\$ 86,375	\$ 85,025
Revaluation gain (loss) on decommissioning and waste management liability and other	6	62,423	(392,297)	(438,381)	(1,476,430)
Decommissioning and waste management income (loss) before financial expenses		93,184	(363,892)	(352,006)	(1,391,405)
Financial expenses	9	35,904	36,520	108,417	113,395
Decommissioning and waste management net income (loss) before Parliamentary appropriations		57,280	(400,412)	(460,423)	(1,504,800)
Net loss from continuing operations before Parliamentary appropriations and discontinued operations		\$ (7,499)	\$ (468,965)	\$ (666,889)	\$ (1,722,130)
Discontinued Operations (Note 10)					
Restructuring charge	10	\$ -	\$ -	\$ -	\$ 31,724
Impairment of non-current assets	4,10	-	317	-	8,587
Operating (loss) income from discontinued operations	10	(6,501)	3,593	24,687	(99,232)
(Loss) income from discontinued operations		(6,501)	3,276	24,687	(139,543)
Loss before Parliamentary appropriations		\$ (14,000)	\$ (465,689)	\$ (642,202)	\$ (1,861,673)
Parliamentary appropriations	8	\$ 107,311	\$ 178,317	\$ 418,147	\$ 528,663
Other comprehensive income (loss)					
Other employee benefit plan actuarial gains (losses)		-	-	-	-
Other comprehensive income (loss)		-	-	-	-
Net and comprehensive income (loss)		\$ 93,311	\$ (287,372)	\$ (224,055)	\$ (1,333,010)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Condensed Consolidated Statement of Changes in Shareholder's Deficit
(Unaudited)

For the three months ended December 31, 2012
(thousands of Canadian dollars)

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at September 30, 2012	\$ 15,000	\$ 278,039	\$ (6,168,261)	\$ (5,865,222)
Net and comprehensive income attributable to Shareholder for the period	-	-	93,311	93,311
Transfer to deferred decommissioning and waste management funding	-	(5,931)	-	(5,931)
Transfer to repayable contributions	-	(705)	-	(705)
Balance at December 31, 2012	\$ 15,000	\$ 271,403	\$ (6,064,950)	\$ (5,778,547)

For the three months ended December 31, 2011
(thousands of Canadian dollars)

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at September 30, 2011	\$ 15,000	\$ 312,991	\$ (5,734,622)	\$ (5,406,631)
Net and comprehensive loss attributable to Shareholder for the period	-	-	(287,372)	(287,372)
Transfer to deferred decommissioning and waste management funding	-	(5,931)	-	(5,931)
Payable to shareholder	-	(1,600)	-	(1,600)
Transfer to repayable contributions	-	(523)	-	(523)
Balance at December 31, 2011	\$ 15,000	\$ 304,937	\$ (6,021,994)	\$ (5,702,067)

For the nine months ended December 31, 2012
(thousands of Canadian dollars)

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2012	\$ 15,000	\$ 291,867	\$ (5,840,895)	\$ (5,534,028)
Net and comprehensive loss attributable to Shareholder for the period	-	-	(224,055)	(224,055)
Transfer to deferred decommissioning and waste management funding	-	(18,181)	-	(18,181)
Transfer to repayable contributions	-	(2,283)	-	(2,283)
Balance at December 31, 2012	\$ 15,000	\$ 271,403	\$ (6,064,950)	\$ (5,778,547)

For the nine months ended December 31, 2011
(thousands of Canadian dollars)

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2011	\$ 15,000	\$ 325,533	\$ (4,688,984)	\$ (4,348,451)
Net and comprehensive loss attributable to Shareholder for the period	-	-	(1,333,010)	(1,333,010)
Transfer to deferred decommissioning and waste management funding	-	(18,181)	-	(18,181)
Payable to shareholder	-	(1,600)	-	(1,600)
Transfer to repayable contributions	-	(815)	-	(815)
Balance at December 31, 2011	\$ 15,000	\$ 304,937	\$ (6,021,994)	\$ (5,702,067)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Condensed Consolidated Cash Flow Statement
(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
(thousands of Canadian dollars)	2012	2011	2012	2011
Operating activities				
Cash receipts from customers	\$ (2,702)	\$ 25,453	\$ (30,382)	\$ 189,107
Cash receipts from Parliamentary appropriations	107,000	216,700	452,145	585,631
Cash receipts for decommissioning and waste management activities	29,833	26,377	95,877	90,312
Cash paid to suppliers and employees	(79,816)	(154,863)	(368,302)	(638,831)
Cash paid for decommissioning activities	(30,847)	(28,399)	(86,401)	(85,006)
Interest received on investments (net)	145	90	480	287
Interest and bank charges paid	(14)	(10)	(32)	(35)
Cash from operating activities	23,599	85,348	63,385	141,465
Thereof from discontinued operations	(8,476)	82,287	13,410	101,223
Investing activities				
Proceeds on disposal of discontinued operations	3,250	1,600	9,384	1,600
Payment of proceeds on disposal of discontinued operations to Shareholder	-	-	(7,734)	-
Acquisition of property, plant and equipment and intangible assets	(16,362)	(6,228)	(38,057)	(29,200)
Cash used in investing activities	(13,112)	(4,628)	(36,407)	(27,600)
Thereof from discontinued operations	3,250	(4,867)	1,650	(6,032)
Cash and cash equivalents:				
Increase	10,487	80,720	26,978	113,865
Balance at beginning of the period	51,930	51,708	35,439	18,563
Balance at end of the period	\$ 62,417	\$ 132,428	\$ 62,417	\$ 132,428

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine-month periods ended December 31, 2012

(Expressed in thousands of Canadian dollars)

(UNAUDITED)

1. The Corporation

Atomic Energy of Canada Limited (AECL or the Corporation) was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*), pursuant to the authority and powers of the Minister of Natural Resources under the *Nuclear Energy Act*.

The Corporation is a Schedule III Part I Crown corporation under the *Financial Administration Act* and an agent of Her Majesty in Right of Canada. As a result, AECL's liabilities are ultimately liabilities of Her Majesty in Right of Canada. The Corporation receives funding from the Government of Canada and is exempt from income taxes in Canada.

AECL conducts its business through the Nuclear Laboratories and the Wrap-Up Office, which manages the retained liabilities associated with AECL's Commercial Operations, sold on October 2, 2011. These organizations aid in resource allocation decisions and assess operational and financial performance. Nuclear Laboratories includes the management of the decommissioning and waste management liability on behalf of the Government of Canada. AECL is domiciled in Canada and its address is Chalk River Laboratories, Chalk River, Ontario, K0J 1J0.

These interim condensed consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on February 14, 2013.

2. Restructuring and Corporate Plan

The Government of Canada completed the first phase of its restructuring plan for AECL in 2011-2012 when it sold AECL's Commercial Operations to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. This first restructuring phase has resulted in the presentation of Commercial Operations as discontinued operations (Note 10).

In February 2012, the Government of Canada formally launched the second phase of its AECL restructuring plan in relation to the Nuclear Laboratories. The Government of Canada's initiative is focusing on the long-term mandate, governance and management structure of the Nuclear Laboratories.

AECL's 2012-2013 Corporate Plan received Governor in Council approval in the first quarter of the 2012-2013 fiscal year. The Corporate Plan and these financial statements have been prepared without making any assumptions as to the outcomes of the second phase of the restructuring. As such, they do not contemplate any changes to AECL's existing activities.

Should the Government of Canada's decisions relating to the AECL Phase 2 restructuring affect the Corporation's structure, mandate or future financial situation, there may be a need to revisit the strategies outlined in the Corporate Plan and the related financial statement preparation (Note 3). Any future impact resulting from the second phase of the restructuring, which may cause the existing activities of the Corporation to be classified as held for sale, are not reflected in these financial statements.

3. Basis of Preparation

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34. As permitted under IAS 34, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended March 31, 2012 and the unaudited interim condensed consolidated financial statements for the three and six-month periods ended September 30, 2012.

The Corporation's interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as of the balance sheet date.

b) Basis of Presentation

The Corporation's interim condensed consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments and derivative financial instruments, which are measured at fair value.

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousands, except where otherwise indicated.

c) Basis of Consolidation

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries, AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988; AECL Technologies B.V., incorporated in the Netherlands in 1995; and its interest in a Trust Fund, a Special Purpose Entity (as defined in Note 4(e) of the Corporation's annual consolidated financial statements for its fiscal period ended March 31, 2012). All inter-company transactions have been eliminated upon consolidation.

d) Critical Accounting Estimates, Assumptions and Judgments

The preparation of financial statements in conformity with IAS 34 guidelines requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Corporation's accounting policies. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3(c) of the Corporation's annual consolidated financial statements for the year ended March 31, 2012.

e) Significant Accounting Policies

Significant accounting policies applied in these interim condensed consolidated financial statements are disclosed in Note 4 of the Corporation's annual consolidated financial statements for the year ended March 31, 2012. The accounting policies have been applied consistently to the current and comparative quarters.

4. Property, Plant and Equipment

<i>(thousands of Canadian dollars)</i>	December 31, 2012	March 31, 2012
Balance - Beginning of period	\$ 263,277	\$ 238,735
Additions and transfers	49,631	72,992
Disposals and transfers	(21,178)	(41,400)
Other changes	5,571	18,376
Depreciation	(13,485)	(16,786)
Impairment	-	(8,640)
Balance - End of period	\$ 283,816	\$ 263,277

5. Provisions

<i>(thousands of Canadian dollars)</i>	December 31, 2012	March 31, 2012
Contract loss	\$ 43,796	\$ 99,639
Other provisions	18,891	21,861
	\$ 62,687	\$ 121,500

6. Decommissioning and Waste Management Provision

<i>(thousands of Canadian dollars)</i>	December 31, 2012	March 31, 2012
Carrying amount - Beginning of period	\$ 5,543,030	\$ 4,117,635
Carrying amount - Beginning of period, current portion	135,500	136,900
Liabilities settled	(87,067)	(124,311)
Unwinding of discount	109,698	152,388
Effect of change in discount rate	438,380	1,218,705
Revision in estimate and timing of expenditures	-	164,107
Revision in estimate and timing of expenditures affecting Property, plant and equipment	-	1,062
Waste, decommissioning and site restoration costs from ongoing operations	5,302	12,044
Carrying amount - End of period	6,144,843	5,678,530
Less current portion	(161,400)	(135,500)
	\$ 5,983,443	\$ 5,543,030

The provision is re-valued at the current discount rate in effect at each balance sheet date.

The provision as at December 31, 2012 was discounted using a rate of 2.36%. The opening balance as at March 31, 2012 was discounted using a rate of 2.66%.

The effect of a change in the discount rate on the provision is recognized in Revaluation gain (loss) on decommissioning and waste management liability and other in the Interim

Condensed Consolidated Statement of Comprehensive Income (Loss). The total gain for the third quarter was \$62,384 (Q3 2011-2012: \$387,660 charge) and the total year-to-date charge was \$438,380 (year-to-date charge 2011-2012: \$1,466,622).

7. Employee Benefits

a) Pension Plan

Employees of the Corporation participate in the Public Service Pension Plan (PSPP). The PSPP is a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution.

Total contributions made on account of current service are as follows:

<i>(thousands of Canadian dollars)</i>	Three Months Ended December 31		Nine Months Ended December 31	
	2012	2011	2012	2011
Payments by employees	\$ 6,032	\$ 5,489	\$ 14,678	\$ 18,490
Payments by employer	\$ 10,924	\$ 10,914	\$ 27,026	\$ 36,440

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of two per cent of pensionable service, multiplied by the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and are indexed to inflation.

b) Employee Benefits

The Corporation provides certain voluntary termination compensation (VTC) and other post-employment benefits as described in Note 4(n) of the annual consolidated financial statements dated March 31, 2012. The defined benefit obligation is not funded, as funding is provided when benefits are paid. Accordingly, there are no plan assets and the defined plan deficit is equal to the defined benefit obligation of \$47.6 million (March 31, 2012: \$60 million) of which \$31.9 million (March 31, 2012: \$53.9 million) is recorded as Employee benefits under long-term liabilities and \$15.7 million (March 31, 2012: \$6.1 million) is recorded as Current portion of employee benefits in Current liabilities.

The VTC included in the reported Employee benefits liability is \$24.3 million and is payable in instances of future voluntary resignations and retirements. Consistent with Government of Canada expectations of federal agencies or Crown corporations, AECL began eliminating this benefit in fiscal 2012-2013.

As the elimination of the VTC is agreed upon and implemented, employees eligible for payment of the accrued benefits are offered three options with respect to the timing of the payments. This impacts the reported net present value of the Employee benefits liability. The greatest potential impact would be experienced if all employees chose to receive the entire payment in 2012-2013. Under this scenario, AECL has determined, through actuarial evaluation, that the increase in AECL's reported Employee benefit obligation would be \$10.7 million. AECL had increased its Employee benefit obligation by \$8 million in the second quarter of this fiscal year to reflect its estimate of the number of employees expected to elect to receive their entire payment in 2012-2013. The Current portion of employee benefits includes the expected payments under this scenario.

The Corporation's total expense for employee benefits was \$1.5 million for this quarter (Q3 2011-2012 excluding restructuring adjustments: \$1.3 million). On a year-to-date basis, the total expense for employee benefits was \$4.2 million (year-to-date 2011-2012 excluding restructuring adjustments: \$5.7 million).

8. Funding

a) Parliamentary Appropriations

AECL segregates its Parliamentary appropriations to ensure funds are spent in a manner consistent with the basis for which they were approved. Parliamentary appropriations are made up of Approved Main and Approved Supplementary Estimates and Statutory Funding. Approved Main and Approved Supplementary Estimates include amounts for Facilities, Nuclear Operations and Research and Development. Statutory Funding relates to amounts associated with obligations pursuant to the divestiture of the Commercial Operations business.

For the three and nine months ended December 31, 2012, Parliamentary appropriations were recognized as follows:

<i>(thousands of Canadian dollars)</i>	Three Months Ended December 31		Nine Months Ended December 31	
	2012	2011	2012	2011
Parliamentary appropriations - operating	\$ 107,311	\$ 178,317	\$ 418,147	\$ 528,663
Parliamentary appropriations - capital				
Capital infrastructure refurbishment project funding	\$ 14,089	\$ 8,383	\$ 33,998	\$ 26,968
Total Parliamentary appropriations	\$ 121,400	\$ 186,700	\$ 452,145	\$ 555,631

While \$107,000 of Parliamentary appropriations was received in Q3, \$121,400 has been recognized in income in the quarter. The difference of \$14,400 had been recorded as Deferred funding in Q2 2012-2013. On a year-to-date basis, all funding received has been recognized in income.

In the 2011-2012 fiscal year, \$216,700 of Parliamentary appropriations was received in Q3 (year-to-date: \$585,631), while \$186,700 has been recognized (year-to-date: \$555,631) with the difference of \$30,000 recorded as Deferred funding.

There were no Parliamentary appropriations receivable as at December 31, 2012.

b) Other Funding

Other funding was recognized as follows:

<i>(thousands of Canadian dollars)</i>	Three Months Ended December 31		Nine Months Ended December 31	
	2012	2011	2012	2011
Operating funding				
Cost recoveries from third parties and other	\$ 7,991	\$ 3,915	\$ 17,566	\$ 11,355
Amortization of Deferred capital funding	3,189	2,096	9,451	6,411
	\$ 11,180	\$ 6,011	\$ 27,017	\$ 17,766
Decommissioning and waste management	30,761	28,405	86,375	85,025
	\$ 41,941	\$ 34,416	\$ 113,392	\$ 102,791

c) Deferred Capital Funding

Deferred capital funding was provided to the Corporation through appropriations from its Shareholder as follows:

	December 31 2012
<i>(thousands of Canadian dollars)</i>	
Deferred capital funding	
Deferred capital funding as at March 31, 2012	\$ 192,314
Capital funding recognized during the period	33,998
Amortization of Deferred capital funding	(9,451)
Deferred capital funding as at December 31, 2012	\$ 216,861

	March 31, 2012
<i>(thousands of Canadian dollars)</i>	
Deferred capital funding	
Deferred capital funding as at March 31, 2011	\$ 156,973
Capital funding recognized during the year	45,427
Amortization of Deferred capital funding	(10,086)
Deferred capital funding as at March 31, 2012	\$ 192,314

9. Financial Income and Expenses

(thousands of Canadian dollars)	Three Months Ended December 31		Nine Months Ended December 31	
	2012	2011	2012	2011
Financial income				
Interest on long-term receivables	\$ 1,939	\$ 2,239	\$ 5,932	\$ 6,969
Interest on investments and other	144	90	480	287
	\$ 2,083	\$ 2,329	\$ 6,412	\$ 7,256
Financial expenses				
Interest on long-term payables	\$ -	\$ 122	\$ 79	\$ 463
Unwinding of discount on decommissioning and waste management provision net of trust fund income	35,904	36,520	108,417	113,395

10. Discontinued Operations

On October 2, 2011, the Government of Canada sold AECL's Commercial Operations to SNC-Lavalin subsidiary Candu Energy Inc., at which point Candu Energy Inc. assumed full ownership and day-to-day operational control over the Commercial Operations.

The sale involved certain AECL-owned assets to Candu Energy Inc. and an exchange of undertakings among the three parties (AECL, SNC-Lavalin and the Government of Canada). A suite of agreements executed at the close of the transaction covers such matters as intellectual property and the new provision of inter-company services between AECL and Candu Energy Inc. It also includes sub-contracting agreements relating to the existing life extension projects, whereby Candu Energy Inc. will complete the contracts as a sub-contractor to AECL, which retains contractual responsibility.

The sale price for the AECL-owned assets was adjusted for closing working capital balances as at the date of the transaction. All proceeds from the sale of the assets were remitted to the Receiver General of Canada in the first quarter of this fiscal year.

Carrying the assets at fair value less costs to sell in accordance with IFRS 5 (non-current assets held for sale and discontinued operations) resulted in an impairment charge of \$8.6 million, which was recognized in the 2011-2012 financial results. Of the total impairment charge, \$0.3 million was recognized in Q3 2011-2012.

On the closing date, Candu Energy Inc. hired 1,522 Commercial Operations personnel, including full-time and contract employees, and 390 AECL employees received termination notices from AECL. A Restructuring provision was recorded for \$36.5 million, of which \$32.4 million has been paid as of December 31, 2012 and \$4.1 million remained to complete the process.

The restructuring expense recognized in the nine months ended December 31, 2011 is \$31.7 million, which includes \$36.8 million of restructuring provision reduced by \$5.1 million for certain benefits forfeited on termination previously accrued as employee benefits.

In September 2012, the Québec government announced that the Gentilly-2 nuclear reactor in Québec would be permanently shut down by the end of 2012 and decommissioned over the next several decades. On October 2, 2012, utility owner Hydro-Québec terminated its contract with AECL to extend the life of the Gentilly-2 reactor. This contract was retained by the Government of Canada and AECL upon the sale of Commercial Operations. AECL has since sought declaratory relief in the Superior Court of Québec to determine the contractual rights and obligations of each party on termination. The impact of the termination of the contract has been reflected in these interim condensed consolidated financial statements.

The Commercial Operations are considered a discontinued operation. Income and cash flows for the Commercial Operations (Discontinued Operations) are reported separately in these interim condensed consolidated financial statements in accordance with IFRS 5.

Results of Discontinued Operations

(thousands of Canadian dollars)	Three Months Ended December 31		Nine Months Ended December 31	
	2012	2011	2012	2011
Revenue	\$ 8,866	\$ 48,324	\$ 73,503	\$ 218,339
Cost of sales	2,919	32,031	10,202	216,150
Gross margin	5,947	16,293	63,301	2,189
Operating expenses	12,448	12,700	38,614	101,421
Operating (loss) income from discontinued operations	\$ (6,501)	\$ 3,593	\$ 24,687	\$ (99,232)

The following balances included in the Interim Condensed Consolidated Balance Sheet relate to ongoing projects and restructuring costs included in Discontinued Operations:

Balance sheet

(thousands of Canadian dollars)

Assets	
Trade and other receivables	\$ 261,711
Liabilities	
Trade and other payables	\$ 32,639
Customer advances and obligations	181,396
Provisions	61,187
Restructuring provision	4,050

11. Commitment and Contingency

As part of the sale of AECL's Commercial Operations, the Government of Canada, through AECL, began providing Candu Energy Inc. with up to \$75 million to support the completion of the Enhanced CANDU Reactor development program. As at December 31, 2012, \$40 million of this amount had been expensed and \$33 million had been paid by AECL. Additionally, under certain conditions outlined in the contract with Candu Energy Inc., AECL may be responsible for reimbursing Candu Energy Inc. for certain costs.

12. Comparative Figures

Certain of the December 31, 2011 comparative figures have been reclassified to conform to the financial statement presentation adopted in the 2012-2013 fiscal year.



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